LOCAL DISTRIBUTION ADJUSTMENT COST CLAUSE

1.0 PURPOSE

The Local Distribution Adjustment Clause ("LDAC") establishes the procedures that allow Blackstone Gas Company ("Company"), subject to the jurisdiction of the Department of Telecommunications and Energy ("Department"), to adjust on an annual basis, its rates to recover Demand Side Management ("DSM") costs, environmental response costs, FERC Order 636 transition costs, and certain costs incurred by the Company as a result of its participation in the Massachusetts Gas Unbundling Collaborative, any increases or decreases authorized by the Department in accordance with the Settlement Agreement in DPU 96-65 and to return to firm ratepayers Balancing Penalties and a portion of non-core distribution margins allocated to firm distribution services. Any costs recovered through the application of this LDAC shall be identified and explained in the Company's annual filing as outlined in Section 12.0.

2.0 APPLICABILITY

This LDAC shall be applicable to all of the Company's firm Customers. As stated in Section 13.0, the application of the clause may, for good cause shown, be modified by the Department.

3.0 DEFINITIONS

The following terms shall be as defined in this paragraph, unless the context requires otherwise:

Rate Category: A rate schedule pursuant to which the Company offers service to a unique group of Customers, or a group of two or more rate schedules pursuant to which the Company offers services to similarly situated groups of Customers as follows:

Residential	(Rates R-1, R-2)
Commercial/ Industrial	(Rate G-1)

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CCF	One hundred cubic feet of gas
Total Throughput ("T:Thru")	Forecasted firm throughput volumes in CCF for twelve consecutive months November to October, inclusive.
DSM Program Costs	Demand Side Management costs as approved by the Department
Conservation Charge ("CC")	The allowable per-unit collection rate derived from the DSM Program Costs.
Environmental Response Costs ("ERC")	All costs of investigation, testing, remediation, litigation expenses other liabilities relating to manufactured gas plant sites, disposal sites, or other sites onto which material may have migrated, as a result of the operating or decommissioning of Massachusetts gas manufacturing facilities.
Unamortized Environmental Response Costs ("UERC")	The portion of the Environmental Response Costs approved for recovery but not yet included in any LDAC recovery calculation.
Number of Days Lag ("DL")	The number of days lag to calculate the purchased gas working capital requirement as defined in the Company's most recent rate case.
Effective Tax Rate ("TR")	The combined effective state and federal income tax rate.
Cost of Equity ("CE")	The equity component of the rate of return as approved by the Department in the Company's most recent base rate case.
Cost of Debt ("CD")	The debt component of the rate of return as approved by the Department in the Company's most recent base rate case.

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Tax Adjusted Cost of Capital	The sum of (1) the Cost of Debt and (2) the Cost of Equity divided by one minus the Effective Tax Rate.
Deferred Tax Benefit ("DTB")	The Unamortized Environmental Response Costs multiplied by the Effective Tax Rate and by the Tax Adjusted Cost of Capital.
Insurance/Third-Party Expense ("IE")	Any expense incurred by the Company in pursuing insurance and third-party MGP claims.
Insurance/Third Third-Party Recovery ("IR")	Any recovery received by the Company as a result of insurance and third-party MGP claims net of any Insurance/Third-Party Expenses not collected from ratepayers.
Remediation Adjustment Clause Reconciliation Adjustment ("Rrac")	The balance in Account 176.3 as outlined in Section 10.0.
Settlement Agreement Adjustment ("SAA")	All costs or refunds due customers in accordance with the Settlement Agreement in DPU 96-65 as approved by the Department
Transition Costs ("TC")	Costs associated with the implementation of FERC Order 636 including (1) gas supply realignment or GSR costs, (2) stranded costs and (3) new facilities costs.
Transition Reconciliation Adjustment ("TCR")	The Balance in Account 176.60 as outlined in Section 10.0.

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Transition Cost Working Capital Requirement ("TCWCreq")	The allowable working capital derived from FERC Order 636 Transition Costs.
Transition Cost Working Capital Allowance ("TCWC")	The allowable working capital cost per-unit collection rate derived from the Transition Cost Working Capital Requirement.
Transition Cost Working Capital Reconciliation Adjustment ("TCWCR")	The balance in Account 176.70 as outlined in Section 10.0.
Unbundling Cost ("UC")	All costs associated with the Company's participation in the Massachusetts Gas Unbundling Collaborative, including but not limited to any legal, consulting, materials, and facilities expenses as approved by the Department.
Unbundling Cost Reconciliation Adjustment ("UCR")	The balance in Account 176.80 as outlined in Section 10.0.
Unbundling Cost Working Capital Requirement	The allowable working capital derived from Unbundling Cost.

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("UCWCreq")

Unbundling Cost Working Capital Allowance ("UCWC")	The allowable working capital cost per-unit collection rate derived from the Unbundling Cost Working Capital Requirement.

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Unbundling Cost Working Capital Reconciliation Adjustment ("UCWCR")	The balance in Account 176.90 as outlined in Section 10.0.
Balancing Penalties ("BP")	Penalty revenues collected by the Company in accordance with its Terms and Conditions.
Economic Benefit	The difference between the revenue and the marginal cost determined to provide non-core distribution service.
Threshold Level	A level based on a historical twelve-month period ending April 30 of each year.
Non-Core Distribution Margin ("NCM")	The Economic Benefit derived from the provision of non-core distribution services. If the total credit exceeds the Threshold Level, then only seventy-five (75) percent of the credit earned in excess of the Threshold Level will be credited as established in DPU 93-141-A. Credits from Non-Core Distribution margins shall be adjusted to reflect additions or losses from Customers who switch from firm distribution to non-core distribution, and conversely, from non-core distribution to firm distribution.

4.0 DEMAND SIDE MANAGEMENT COSTS ALLOWABLE FOR LDAC

4.1 PURPOSE

This provision establishes the procedures that allow the Company, subject to the jurisdiction of the Department, to adjust on an annual basis, the Conservation Charge to recover from firm ratepayers DSM Program Costs and associated expenditures.

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4.2 APPLICABILITY

The Conservation Charge shall be applied to CCF sales of the Company, subject to the jurisdiction of the Department, as determined in accordance with the provisions of this rate schedule. Such Conservation Charge shall be determined annually by the Company separately for each Rate Category subject to review and approval by the Department. The Conservation Charge shall be incorporated within the calculation of the LDAF for each Rate Category as set forth in Section 8.0.

4.3 DEFINITIONS

Unless otherwise noted, these definitions shall apply only to the recovery of DSM costs:

Category Conservation Expenditures	Those expenses properly assignable or allocable to a Rate Category and incurred by the Company in furtherance of DSM programs that have been pre-approved by the Department pursuant to such orders as it may issue and its regulations as in effect from time to time.
Lost Margins	Lost Margins shall be determined by multiplying Rate Category CCF savings by the respective Rate Category recovery rate, both as approved by the Department from time to time. Lost Margins shall be recalculated in the Initial Lost Margins Reconciliation and the Final Lost Margins Reconciliation as described below. Whenever a general base rate proceeding is adjudicated by the Department, the Company will cease to recover, commencing with the effective date of the new base rate schedules, the Lost Margins associated with DSM measures installed prior to the test year used in said base rate proceeding.
Category CCF Sales	The respective CCF sales applicable to each Rate Category.

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Category Reconciling Adjustment — The dollar amount, whether positive or negative, required to reconcile any difference between revenue collected from Customers pursuant to this rate schedule with respect to a given Rate Category during a given period of time, and the Category Conservation Expenditures incurred by the Company relative to such Rate Category during such period of time.

4.4 LOST MARGIN RECOVERY

The recovery of Lost Margins will be subject to an "Initial Lost Margins Reconciliation" and a Final Lost Margins Reconciliation" each to be determined, using the most recent program savings measurements, and submitted to the Department concurrently with one of the Company's annual Conservation Charge decimal filings, or at the time of an interim change in the Company's Conservation Charge decimals. The difference between the Lost Margins as preliminarily approved by the Department from time to time based upon engineering estimates of savings and as calculated using the measured savings resulting from the Gas Evaluation and Monitoring Study ("GEMS") and approved by the Department will be the Initial Lost Margins Reconciliation. This Initial Lost Margins Reconciliation will be submitted with the Company's first Conservation Charge decimal filing after such approved GEMS savings figures are available. The difference between the Lost Margins as calculated using the initial GEMS measured savings and the Lost Margins as calculated using final GEMS measured savings (if any) will be the Final Lost Margins Reconciliation and will be submitted the following year. The Initial Lost
Margins Reconciliation and the Final Lost Margins Reconciliation, whether positive or negative, will be incorporated into the calculation of the Conservation Charge decimals being submitted for the Department's approval with the Company's respective Conservation Charge decimal filing. The Conservation Charge shall be filed as part of the Company's overall LDAF filing pursuant to Section 12.0.

4.5 CALCULATION OF CONSERVATION CHARGES

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The Company will forecast Category Conservation Expenditures for each Rate Category subject to this rate schedule for a future twelve-month period commencing November lst of each year. The total of such Category Conservation Expenditures plus any prior period Category Reconciling Adjustment plus an allocated share of the Lost Margins shall be divided by Category CCF Sales as forecast by the Company for the same annual period. The resulting Conservation Charge shall be incorporated within the calculation of the LDAFs applied to firm Customers during each such twelve-month period commencing with the Peak Season.

4.6 INFORMATION TO BE FILED WITH THE DEPARTMENT

As part of the Company's annual LDAF filing, the Company will submit to the Department for its consideration and approval, the Company's request for a change in the Conservation Charge applicable to the LDAFs, for each Rate Category during the next subsequent twelve-month period commencing with the billing month of November.

4.7 OTHER RULES

Whenever the Company determines that, under one or more of the Conservation Charges then in effect, the sum of actual plus revised projected Category Conservation Expenditures exceeds the approved annual estimate by an aggregate amount of more than ten percent, the Company may apply to the Department for approval and authorization of an appropriate adjustment in such Conservation Charges. Whenever the Company determines that collections from any one or more of the approved Conservation Charges will exceed the sum of actual plus revised projected Category Conservation Expenditures by an aggregate amount of more than ten (10) percent, the Company will forthwith notify the Department. The Department thereupon may approve an adjustment in any one or more of the Conservation Charges then in effect.

5.0 ENVIRONMENTAL RESPONSE COSTS ALLOWABLE FOR LDAC

All costs and other liabilities, adjusted for deferred tax benefits, associated with the investigation, testing, - remediation and litigation relating to manufactured gas plant sites, disposal sites or other sites onto which material may have migrated as a result of the

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Manufactured Gas Process ("MGP"), as fully defined in the Department's Order in DPU 89-161, may be included in the LDAC. In addition, one-half of the Insurance/Third-Party Expense less one-half of the Insurance/Third-Party Recovery, both as defined in Section 3.0, may be included.

Issued: July 15, 1999
Effective: August 1, 1999

Issued by James A. Wojcik, President
Blackstone Gas Company
61 Main Street
Blackstone, MA 01504

LOCAL DISTRIBUTION ADJUSTMENT COST CLAUSE

6.0 FERC ORDER 636 TRANSITION COSTS ALLOWABLE FOR LDAC

All costs as defined and approved by the FERC, Other than those Transition Costs pertaining to FERC Account NO. 191, including: (1) gas supply realignment or GSR costs; (2) stranded costs; and (3) new facilities costs, may be included in the LDAC.

7.0 UNBUNDLING COSTS ALLOWABLE FOR LDAC

All costs associated with the Company's participation in the Massachusetts Gas Unbundling Collaborative, including but not limited to any legal, consulting, materials, and facilities expenses, may be included in the LDAC as approved by the Department.

8.0 FORMULAS

8. 1 LOCAL DISTRIBUTION ADJUSTMENT FACTOR ("LDAF")

The annual LDAF shall comprise an annual Rate Category specific Conservation Charge, the Remediation Adjustment Factor ("RAF"), the Transition Cost Factor ("TCF"), the Unbundling Charge Factor ("UCF"), the Balancing Penalty Credit Factor ("BPC"), and the Annual Non-Core Distribution Credit Factor ("NCC"), and the Settlement Agreement Adjustment ("SAA") calculated prior to November lst of each year according to the following formula:

LDAF = CC + RAF + TCF + UCF - BPC – NCC + SAA

8.2 REMEDIATION ADJUSTMENT FACTOR

The RAF consists of one-seventh of the actual Environmental Response Costs incurred by the Company in any calendar year for each year until fully amortized, less a deferred tax benefit, plus one-half of insurance and third-party expenses for the calendar year, less one-half of the insurance and third-party recoveries for the calendar year, plus the prior year's RAF reconciliation adjustment.

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This amount is then divided by the Company's forecast of total firm throughput volumes for the upcoming year.

The Deferred Tax Benefit is calculated by applying the Effective Tax Rate to the Company's Unamortized Environmental Response Costs to arrive at the deferred tax. The deferred tax is then multiplied by the Tax Adjusted Cost of Capital to arrive at the Deferred Tax Benefit.

The RAF shall be calculated according to the following:

$$RAF = \frac{Sum(ERC/7) - DTB + WE - IR)*0.5) + Rrac}{T:Thru}$$

where:

DTB = UERC * TR * (CD + (CE/(I-TR)))

8.3 TRANSITION COST FACTOR

The TCF shall be calculated according to the following formula:

$$\frac{TCF = TC + TCR + TCWC}{T:Thru} + TCWC$$

where

$$\frac{TCWC = TCWCreq * (CD + (CE/(I-TR))) + TCWCR}{T:Thru}$$

TCWCreq = TC*(DL/365)

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8.4 UNBUNDLING CHARGE FACTOR

The UCF shall be calculated according to the following formula:

$$UCF = \frac{UC + UCR}{T{:}Thru} + UCWC$$

where:

$$UCWC = \frac{UCWCreq * (CD + (CE/(l\text{-}TR))) + UCWCR}{T{:}Thru}$$

$$UCWCreq = UC*(DL/365)$$

8.5 BALANCING PENALTY CREDIT FACTOR

The BPC shall be calculated according to the following formula:

$$BPC = \frac{BP}{T{:}Thru}$$

8.6 ANNUAL NON-CORE DISTRIBUTION CREDIT FACTOR

The NCC shall be calculated according to the following formula:

$$NCC = \frac{NCM}{T{:}Thru}$$

8.7 SETTLEMENT AGREEMENT ADJUSTMENT FACTORY

The SAA shall be calculated to implement the Settlement Agreement in DPU 96-65 as approved by the Department.

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9.0 RECONCILIATION ADJUSTMENTS

9.1 ENVIRONMENTAL RESPONSE COST

(a) Remediation Adjustment Clause expenses allowable per the RAF formula:

i. One-seventh of each calendar year's Environmental Response Cost less the Deferred Tax Benefit.

ii. One-half of the Insurance/Third-Party Expense, less one-half of the Insurance/Third Party Expense.

(b) The RAF portion of the LDAF will be used as the convention for recognizing revenue toward the Environmental Response Cost.

(c) Account 176.3 shall contain the accumulated difference between the Environmental Response Cost allowable per the RAF formula and the revenue toward Environmental Response Cost as calculated by multiplying the RAF times firm throughput volumes.

(d) The RAF Reconciliation Adjustment shall be taken as the Account 176.3 balance as of October 31st of each year.

9.2 TRANSITION COSTS

(a) FERC 636 Transition Costs other than FERC Account No. 191 costs allowable per the TCF formula:

i. Gas Supply Realignment costs ("GSR costs")

ii. Asset costs not directly assignable to Customers of unbundled services ("Stranded Costs").

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iii. Other costs associated with the implementation of Order No. 636 ("New Facility Costs").

(b) The TCF portion of the LDAF will be used as the convention for recognizing revenue toward the Transition Costs.

(c) Account 176.60 shall contain the accumulated difference between the Transition Costs allowable per the TCF formula and the revenue toward Transition Costs as calculated by multiplying the TCF times firm throughput volumes.

(d) The TCF Reconciliation Adjustment shall be taken as the Account 176.60 balance as of October 31st of each year.

9.3 Unbundling Costs

(a) Unbundling Costs allowable per the UCF formula:

Costs associated with the Company's participation in the Massachusetts Gas Unbundling Collaborative.

(b) The UCF portion of the LDAF will be used as the convention for recognizing revenue toward the Unbundling Costs.

(c) Account 176.80 shall contain the accumulated difference between the Unbundling Costs allowable per the UCF formula and the revenue toward Unbundling Costs as calculated by multiplying the UCF times firm throughput volumes.

(d) The UCF Reconciliation Adjustment shall be taken as the Amount 176.80 balance as of October 31st of each year.

9.4 WORKING CAPITAL COSTS

LOCAL DISTRIBUTION ADJUSTMENT COST CLAUSE

(a) Working Capital Costs allowable per the TCF formula:

FERC 636 Transition Costs Other than FERC Account No. 191 costs.

(b) Account 176.70 shall contain the accumulated difference between the Transition Cost Working Capital Allowance and the revenue toward the Transition Cost Working Capital Allowance.

(c) The Transition Cost Working Capital Reconciliation Adjustment shall be taken as the Account 176.70 balance as of October 31st of each year.

(d) Working Capital Costs allowable per the UCF formula:

Costs associated with the Company's participation in the Massachusetts Gas Unbundling Collaborative.

(e) Account 176.90 shall contain the accumulated difference between the Unbundling Cost Working Capital Allowance and the revenue toward the Unbundling Cost Working Capital Allowance.

(f) The Unbundling Cost Working Capital Reconciliation Adjustment shall be taken as the Account 176.90 balance as of October 31st of each year.

10.0 EFFECTIVE DATE OF LOCAL DISTRIBUTION ADJUSTMENT FACTOR

The date on which the annual Local Distribution Adjustment Factors ("LDAF") become effective will November 1st of each year.

11.0 APPLICATION OF LDAF TO BILLS

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The LDAF will be applied to the monthly firm distribution volumes for each Customer in a Rate Category. The annual LDAF for each Rate Category shall be calculated to the nearest one one-hundredth of a cent per CCF.

12.0 INFORMATION TO BE FILED WITH THE DEPARTMENT

Information pertaining to the LDAF shall be filed with the Department in accordance with the standardized forms approved by the Department. Required filings include a monthly report which shall be submitted to the Department on the twentieth of each month, and an annual LDAF filing which shall be submitted to the Department at least 45 days before the date on which the new LDAF is to be effective, and an annual RAC filing which shall be submitted at least 90 days before the date on which the new LDAF is to be effective.

Additionally, the Company shall file with the Department a complete list by (sub)account of all local distribution costs claimed as recoverable through the LDAC over the previous year, as included in the annual reconciliation. This information shall be submitted with each annual LDAF filing, along with complete documentation of the reconciliation adjustment calculations.

13.0 OTHER RULES

The Department may, where appropriate, on petition or on its own motion, grant an exception from the provisions of the applicable regulations and this rate schedule, upon such terms that it may determine to be in the public interest.

At any time, the Department may require the Company to file, or the Company may file with the Department, an amended LDAF. Said filing must be submitted at least ten (10) days before the date on which the proposed effective date of the amended LDAF.

The operation of this rate schedule is subject to all powers of suspension and investigation vested in the Department by Chapter 164 of the General Laws of the Commonwealth of Massachusetts.

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14.0 CUSTOMER NOTIFICATION

The Company will design a notice which explains in simple terms to customers the LDAF, the nature of any change in the LDAF, and the manner in which the LDAF is applied to the bill. the Company will submit this notice for approval at the time of each LDAF filing. Upon approval by the Department, the Company shall immediately distribute these notices to all of its customers either through direct mail or with its bills.

FARM DISCOUNT RIDER

APPLICABILITY: The Farm Discount Rider ("FDR") applies to Customers taking service under any of the Company's retail distribution service rates who are engaged in the business of agriculture or farming as defined in G.L. c. 128, § 1A. Customers will be required to provide appropriate documentation of their eligibility for this Rider prior to commencing service hereunder.

DETERMINATION OF MONTHLY CREDIT: The Company will apply a credit in the amount of ten percent (10%) of the Retail Delivery Service charges, including Local Distribution Adjustment charges rendered to the Customer each month.

MONTHLY CREDIT: (10%) of the Retail Delivery Service charges, including Local Distribution Adjustment charges, plus Default Service charges if applicable to the total service charge rendered to the Customer each month.

TERMS AND CONDITIONS: The provisions of the Company's Terms and Conditions in effect from time to time, where not inconsistent with any specific provisions hereof, are a part of this Rider.